105th Congress, 1st Session: No. 9 March 24, 1997

INFORMED BUDGETEER

DISASTER SUPPLEMENTAL ARRIVES

- The President submitted a long-awaited request for FY 1997 disaster supplemental assistance prior to departing for Helsinki. The $2 billion request is to respond to severe flooding in the West and Midwest, recent tornadoes, and anticipated 1997 needs. The request includes $1.4 billion in supplemental appropriations and $568 million in "contingent" funding:

- $979 million for the Federal Emergency Management Agency (FEMA) -- $541 million in supplemental appropriations and $438 million in "contingent" appropriations that would be made available only if the President submits future request for the funds designating them as "emergency" requirements as further damage is identified.

- $276 million for the Federal Highway Administration plus $15 million in "contingent" funding;

- $240.7 million for the Corps of Engineers and $50 million in "contingent" funding for anticipated spring flooding. The President also requests an advance 1998 appropriation of $30.5 million for a North Dakota project at Devils Lake;

- $213.4 million for Department of Interior agencies, including $147.8 million for the National Park Service and $34 million for the Fish and Wildlife Service, and $30 million in "contingent funds;"

- $126.1 million for the Department of Agriculture and $35 million in "contingent" funding; and

- $22.8 million for the Dept. of Commerce -- NOAA and EDA.

IS THE PRICE RIGHT?

- Dyed-in-the-wool budgeteers will remember one of the many observations on the federal budget by the late Professor Aaron Wildavsky: the budget answers the question "Who gets what the government has to give" and at what price?[1]

- A coincidental timing of events relating to spectrum policy reinforces this fundamental observation (contradicting those who argue that spectrum policy has nothing to do with the budget). By April 1, the Federal Communications Commission (FCC) plans to vote on a rulemaking that would allot companion frequencies on the spectrum to television broadcasters so they can develop and transmit digital television signals while continuing their current analog broadcasts.

- The FCC will make this allocation **free of charge** because the current law that permits the FCC to auction spectrum does not extend to television, and the Congress has not changed the law. Further, the hurry to complete the allocation by April 1 arises not from law as one might imagine, but because of a letter sent last May to the FCC from just a few members of Congress (with the President's apparent acquiescence) with an interest in seeing broadcasters receive this additional spectrum for free before any changes in law could occur.

- The purported reason for the rush--to get digital broadcast technology rolled out quickly--has instead had the opposite effect. Manufacturers of high definition televisions--which were the original motivation for loaning the digital spectrum--have reported this week they will delay bringing their technology to market because broadcasters are dragging their feet in developing the digital signals that such televisions would receive, and that such a delay probably would not have occurred if the spectrum had been auctioned instead, because bidders would have wanted to start receiving a return on their investment.

- Just as the FCC action is about to occur, CBO's annual compendium of deficit reduction options was released this week, and includes an option that outlines how this spectrum could be auctioned instead of given for free--yielding **$12.5 billion in receipts** over the next three years.

- Standing in contrast to this option is the President, who appears to have just recently recognized the benefits about to be bestowed on broadcasters[2], and who has proposed to somehow collapse what was supposed to be a 15-year transition period into an eight-year period, with an advance auction in 2001 of the to-be-returned analog spectrum. In part because of the jury-rigged nature of this proposal to show receipts in the key budget-balancing year of 2002, CBO estimates such an auction would bring only $5.4 billion, forcing the President to invoke an alternative policy of somehow taxing broadcasters $9.4 billion to reach a $14.8 billion target.

- These events confirm Professor Wildavsky's insight: the budget shows that the government will give this digital spectrum for a price of zero, even though the price could have been at least $12.5 billion. The President proposes in his budget to salvage some of the value by charging $5.4 billion later, but in such a way as to provide little confidence that his plan will actually work. One could be equally skeptical about the likely imposition of the latest vague "price" the Administration and the FCC are considering as quid pro quo for use of the digital spectrum--free TV time for political campaigns (see Walter Cronkite's Quote of Note).

FOOTNOTES: [1]*The Politics of the Budgetary Process*, 1974. [2]*New York Times, Wall Street Journal*, March 17, 1997.

PRESIDENT PROPOSES RESTORING OVER HALF OF WELFARE REFORM SAVINGS

- As estimated by CBO, last years welfare reform bill saved the Federal government $54.5 billion over six years. The President's 1998 Budget proposes a number of revisions to the enacted welfare reform bill.

- In all, these provisions would add back $24.5 billion in entitlement spending over the next six years including a $700 million supplemental request for 1997. (Over the next eleven years through 2007 the add backs total $61.5 billion)

- Nearly $14.4 billion of the additional spending is for <u>benefits to noncitizens</u>. These noncitizen benefits include $9.4 billion in additional Supplemental Security Income (SSI) benefits for noncitizens, $5.0 billion in additional Medicaid benefit for noncitizens, $0.1 billion for Food Stamp benefits.

- The President's Budget would also increase food stamp benefits (for citizens) by $4.7 billion over the next six years. However the real cost of these proposals-- indexing the standard deduction and increasing the excess shelter deduction -- are not felt until 2002 and beyond. By 2007 these two proposals alone will cost $1.5 billion whereas in 2001 there is no cost to the proposal and in 2002 the proposals cost $500 million.

- The President's proposal also includes a new $3.0 billion entitlement Jobs Challenge program.

- The Budget would extend Medicaid benefits to children affected by the new definition of childhood disability with a cost of $2.0 billion.

- However an interesting table and footnote included in the President's Budget (pg. 25 of the *Analytical Perspectives*) indicates fewer savings in SSI and food stamps than was forecast by the initial CBO savings estimate for welfare reform. Because of administrative interpretation of a new definition of childhood disability and administrative implementation of the food stamp work requirement, savings will be lower by $1.9 billion in SSI and $2.0 billion in Food Stamps.

- So, by administrative action or proposed increased spending, the President would restore $28.4 billion of the original $54.5 billion in savings-- 52 percent reduction in savings.

FAIR UPDATE: 1996 FARM BILL

- Farm policy is driven by the Federal Agricultural Improvement and

Reform Act (FAIR) of 1996. The FAIR Act was designed to give farmers flexibility in planting decisions based on market conditions and not government programs.

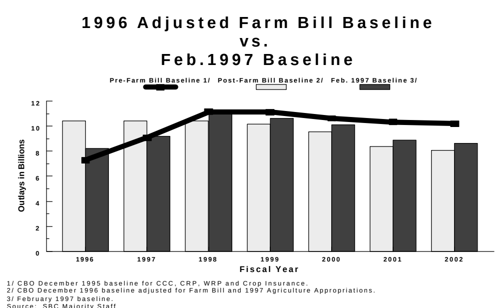
- FAIR terminated the production control programs of the depression era and provided a market transition into the 21st century. The FAIR Act also included a spending cap on the major program crops which will limit unforseen spending increases which have frequently occurred in the past. At the time of enactment last year, the farm bill was estimated to save $2.1 billion between 1996 and 2002.

- The FAIR Act authorized the mandatory farm programs from 1996 to 2002. The mandatory programs include the CCC commodity programs (including production flexibility contract payments), conservation programs, crop insurance, and rural development programs. Most of the spending that is included in the farm bill is for CCC commodity programs, crop insurance, and the conservation reserve program.

- Today however, spending for farm programs is on the increase based upon CBO's February 1997 estimates. Over the 1998-2002 period spending is projected at $49.5 billion, an increase of $2.9 billion over the post-farm bill baseline.

- The increased spending is largely due to higher projected spending for the conservation reserve program and the crop insurance program over 1998-2002. These two programs account for $2.5 billion of the projected increase over the 1998-2002 period.

- If higher spending trends continue or if spending increases as a result of legislative or administrative changes then the savings assumed at the time of the farm bill's enactment may now have disappeared.



ROTH BALANCED-BUDGET TAX RELIEF PLAN

- While the Senate Finance Committee was unable to submit the statutorily required "Views & Estimates" letter to the budget Committee, Chairman Roth was able to put forward a budget plan this week that balances the budget and accommodates tax cuts contained in S. 1 and S. 2. These include education incentives, a child tax credit, a capital gains rate cut, capital gains indexing, estate tax relief, and IRA provisions.

- In order to "have it all," the Roth plan:

  -- embraces OMB economic and technical assumptions;
  -- assumes all of the President's Medicare and Medicaid cuts, and none of the spending increases ($137 billion);
  -- reduces defense and nondefense discretionary spending by $140 billion;
  -- delays implementation of the child tax credit until 1998;
  -- assumes $35 billion in new revenues from extending the airport and airway taxes and other revenue increases; and,
  -- legislates CPI minus 1.1 percentage points.

- Legislating CPI minus 1.1 saves $153 billion over the next five years. Social security benefits will grow by $59.7 billion less than under current projections, other indexed benefit programs will grow $24.1 billion less. Tax receipts will go up by $54.8 billion. Debt service savings are $14.4 billion from CPI minus 1.1.

- Senator Roth's press release says that the plan has a net tax cut of $143 billion ($178 billion in tax cuts and $35 billion in tax increases), but when the revenues raised from the CPI reduction are included the net tax cut in the Roth plan is really $88.2 billion

ECONOMICS

FADING JOB INSECURITY?

- An unusual degree of worker insecurity has restrained inflation during the present economic expansion. Yet, there are signs that this insecurity is starting to wane.

- Federal Reserve Chairman Greenspan called attention recently to the percentage of voluntary job leavers to the total unemployed. One would expect the number of voluntary job leavers to rise as confidence in the labor market grows. Despite an aberrant monthly fall in February, the 3 month moving average for this indicator has risen from sharply 9.7 % last June to 11.6 % in February.

- This trend makes sense in light of the recent rise in the number of Conference Board respondents who think jobs are getting more plentiful. In similar fashion, the Michigan Consumer Confidence Survey shows more people believe unemployment is falling.

- There are other signs of greater worker confidence as well. From February 1996 to February 1997, the number of discouraged workers who currently want a job fell by almost 10 %. Within this group, there was an even greater 16% fall among those who have searched for work and are ready for work now.

- The reduction in discouraged workers has been one factor behind the large 1.9% rise in the labor force over the last 12 months (versus only 0.7% in the year previous). This expansion has helped to keep the unemployment rate largely steady and inflation in check despite strong 2.3% job growth over the same period.

- Yet, it is unclear if the labor market participation rate can continue to rise. Already, signs of labor market tightness can be seen in the steady rise in average hourly wage growth -- 3.8% growth in February 1997 versus 3.0% the year previous.

- Net job insecurity still remains high vis a vis the 1980s, given rapid changes in technology and needed skill sets. However, there has been a noted pick-up in labor market optimism, which is likely to lead to increases in unit labor costs as employee compensation rises and productivity growth slows with the maturing economic expansion. This is one reason why the risk of a Federal Reserve interest rate hike appears to be growing.

QUOTE OF NOTE

"The broadcast industry is about to recieve new spectrum space valued at tens of billions of dollars to facilitate its transition to the new digital techonlogy. Other users of the public airwaves have been made to pay billions in auction fees for spectrum space. the broadcasters have persuaded Congress that they should not pay -- because they have unique public interest obligations. What could be more in the public interest that that they make their contribution, an essential, fundamental one, in helping clean up our electoral process".

-Walter Cronkite at the Anenberg Public Policy Forum, March 11, 1997.

CONGRATULATIONS to HBC Chairman Kasich and his new bride, Karen Waldbillig. Chairman Domenici wishes them all the best.